



**SMIFS
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INITIATING COVERAGE REPORT

Ahluwalia Contracts (India) Ltd



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Ahluwalia Contracts (India) Ltd

Strong pedigree, poised to ride on the upcycle...

Ahluwalia Contracts (India) Ltd (Ahluwalia), a company with an extensive experience spanning over four decades, belongs to an exclusive group of contractors that possess the requisite qualifications to undertake large-scale building projects in India. It has demonstrated the ability to adapt to changing circumstances and has emerged successful during various economic cycles. At present, the company is benefiting from the favourable ongoing infrastructural development and has experienced strong inflows resulting into highest-ever order backlog of Rs120.8bn at Q2 FY24-end. Taking into account the L1 position, the backlog is further strengthened and provides industry-leading >4.5x assurance. Further, it is well-placed to secure incremental opportunities with its diversified presence and expected continuation of industry-wide awards. Thus, with robust backlog and growing in-house construction capabilities, we anticipate a healthy 24.1% revenue CAGR over FY23-26E. Margins are moving northwards and likely to reach 11.5% (by FY26E), with the efficient operations, better cost control, and the acquisition of new projects at advantageous margins. No major provisions/write-offs ahead and price-escalation clauses in majority of contracts protects downside. At the net level, we expect 26.7% CAGR in PAT over FY23-26E. Cash surplus position to get maintained with no-further incremental exposure to asset heavy business. Healthy working capital days and strong return ratios are added positives. Given the promising outlook, we initiate coverage with a Target Price of Rs958/share, representing 22% potential upside. BUY

Strong track record with exceptional execution proficiency offers distinct advantage

Ahluwalia prides itself on an impressive track record of achievements, having successfully completed over 100 projects and currently overseeing more than 50 ongoing projects in various sub-segments of the construction industry. These projects have been acquired largely through good management touchpoints, longstanding collaborations with distinguished architects and consultants, as well as a robust network of channel partners. Further, the execution of such projects is aided by highly skilled internal execution teams, in-house architects, and owned machineries and equipment backed by continuous investments in upgrading technology, systems, and processes. This strategic approach grants an advantage in maintaining control over project execution and costs and achieving better margins.

Bulging opportunities, and nationwide presence propelled order backlog to all-time high

Ahluwalia, following two years of lower-than-expected inflows, has witnessed a surge in order additions in FY23 (Rs50.6bn) and YTD FY24 (Rs52.6bn) largely attributed to the government's emphasis on the healthcare and education sectors, as well as the reconstruction of prominent government structures. Most projects typically range within Rs1-5bn, while the largest contract being the station redevelopment in Mumbai, valued at Rs24.5bn. The strong inflows have contributed to the order backlog reaching a record all-time high of Rs120.8bn at Q2 FY24-end (assurance: ~3.7x). Furthermore, the assurance strengthens to >4.5x at present considering the L1 status in a project. The government contracts account for ~70% of overall backlog. Ahead, it is aiming to add ~Rs10bn more in the rest of FY24, to hedge against a slowdown as ordering generally slows closer to elections. Medium term opportunities also remain healthy. Based on this, we project inflows of ~Rs87bn in FY24, ~Rs55bn in FY25, and ~Rs68bn in FY26. The revival of capex from the private sector would contribute to clientele diversification strategy.

Revenue to improve at 24.1% CAGR, operating margin likely to reach 11.5% by FY26E

Ahluwalia's revenue growth has experienced volatility in recent years due to several factors, including disruptions caused by Covid'19 pandemic, reduced labour availability, and lower executable order backlogs. However, it regained the lost momentum in H1FY24, achieving a healthy 35.1% y/y growth in topline. Ahead, we project a 24.1% CAGR during FY23-26E, expected to be bolstered by a robust order book position, healthy inflows, and upped execution pace. Further, the operating margins have been trending upwards and have shown improvement to 10.4% in H1FY24, up from the low of 7.8% in FY21. We expect the company to post 10.9% in FY24, 11.2% in FY25, and 11.5% in FY26, driven by the execution of better margin projects and the efficient absorption of operating overheads. At the net level, we expect PAT to improve at 26.7% CAGR, supported by robust revenue growth, and margin expansion.

Cash surplus position to strengthen; working capital days to increase slightly

Increased emphasis on projects undertaken by public sector entities, careful selection of private clients' projects, and effective management of collections have contributed to Ahluwalia's reduced reliance on external debts. Additionally, it meets the working capital requirements partly through mobilisation advances. Consequently, it maintained a net cash surplus position of ~Rs4.9bn (with merely Rs320mn gross debt) at Q2 FY24-end. We expect better OCF in the future, which will help strengthen cash and cash equivalents, while also meeting capex requirements. Net working capital (incl. retention and unbilled revenue) considered to hover at ~92-95 days over FY24-26E, higher than 83 days at FY23-end, due to the extended debtor and inventory days resulting from the execution of larger government projects.

View: We initiate coverage with a BUY recommendation based on its strong fundamentals. We have assigned 16x P/E for FY26E construction earnings, while the Kota asset is assumed at its book value of Rs15 a share, to arrive at TP of Rs958. **Risks:** Delays in execution, and funding issues at clients-end.

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	Adj P/E (x)	EV/EBITDA (x)
FY22	26,925	35.8	2,566	9.5	1,553	101.0	23.2	16.2	18.4	20.3	8.1
FY23	28,384	5.4	3,042	10.7	1,942	25.1	29.0	17.1	18.4	19.9	8.1
FY24E	34,800	22.6	3,802	10.9	2,339	20.5	34.9	17.4	19.2	22.5	11.8
FY25E	44,216	27.1	4,957	11.2	3,066	31.1	45.8	19.0	21.0	17.2	9.0
FY26E	54,311	22.8	6,251	11.5	3,950	28.8	59.0	20.2	21.9	13.3	6.8

Source: Company, SMIFS Research Estimates

Rating: **BUY** Upside: **22%**
 Current Price: **787** Target Price: **958**

| Market data

Bloomberg:	AHLU: IN
52-week H/L (Rs):	871/449
Mcap (Rs bn/USD bn):	52.7/0.63
Shares outstanding (mn):	67.0
Free float:	45.0%
Daily vol. (3M Avg.):	0.123mn
Face Value (Rs):	2
Group:	S&P BSE SmallCap

Source: Bloomberg, SMIFS Research

| Shareholding pattern (%)

	Sept-23	Jun-23	Mar-23	Dec-22
Promoter	55.3	55.3	55.3	55.3
FIIIs	12.6	11.8	11.5	12.2
DIIIs	26.7	27.4	28.0	27.2
Public/others	5.4	5.5	5.2	5.3

| Pro. Pledging

Pledging	5.4	5.4	12.9	12.9
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Source: BSE

| Price performance (%) *

	1M	3M	12M	36M
NIFTY 50	4.1	11.1	20.7	52.9
NIFTY 500	5.4	13.9	27.3	66.5
AHLU: IN	-8.3	10.8	52.8	197.8

*as on 5th Jan 2024; Source: AceEquity, SMIFS Research

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Investment Rationale

Extensive track record in executing esteemed undertakings; one of the prominent contractors eligible for large-scale projects

- Ahluwalia Contracts (India) Ltd, a company with a long-standing history of over four decades in the construction industry, has firmly established itself as a prominent civil contractor on a national scale. Its operations encompass a wide range of sub-segments, including commercial, healthcare, infrastructure, institutional, and residential constructions.
- Good management touchpoints, strong brand recall, long-term association with leading Architects and Consultants (such as Tata Consulting Engineers, Hafiz contractors, Jacobs H&G, Stein Doshi Bhalla, Jasbir Sawhney, Charles Corrhea, among others), and a strong network of channel partners throughout India offer them opportunities to secure contracts in multiple locations.
- In fact, it is among an exclusive group of contractors, such as L&T, Shapoorji Pallonji and Company, Kalpataru, and NCC, that possess the requisite pre-qualification to participate in the bidding process for the majority of large-scale building projects.
- As of now, it has successfully completed over 100 projects till now, including notable ones such as the AIIMS Campus Jammu (J&K), International Convention Centre at Patna, the Metro Depot for Mumbai Metro-1, Domestic Passenger Terminal Building at Dehradun Airport (Phase-I), Income Tax building at BKC, Aluminium smelter plant for Vedanta, Central Vistas project, and Commonwealth games village tower works.
- The clientele profile is diverse and includes various government agencies such as Central PWD, NBCC, Delhi Development Authority, AIIMS, and DMRC. It also serves esteemed educational institutions like IITs, NITs and IIMs, as well as private entities such as Tata Housing, DLF, Max hospitals, and others.
- At present, it is engaged in over 50 ongoing projects across 15 states, encircling high-rise residential, commercial complexes, luxury hotels, institutional buildings, hospitals and medical colleges, IT parks and industrial complexes, as well as railway stations and depots, among other sectors. Furthermore, the organization is actively involved in a project in Nepal, with an EPC value of ~Rs4.4bn, which is being funded by the Indian government.

Fig 1: Possesses formidable credentials validated by a roster of completed and ongoing assignments

Category	Key projects (Completed)	Key Projects (Ongoing)
Hotels	Leela Palace Five-star Hotel, Chanakyapuri, New Delhi Hotel Renaissance, Powai, Mumbai Hotel Shangri-La, Parel, Mumbai ITC Gardenia Five Star Hotel	JW Marriott- Pkg A, Shimla
Hospitals	Chittaranjan National Cancer Institute, Kolkata Fortis Super Speciality Hospital, Shalimar Bagh, New Delhi Tata Medical Centre, Kolkata	Cancer Hospital Building for Tata Memorial Centre, Parel, Mumbai AIIMS Jammu (750 Bed Hospital) at Vijaypur, Distt Samba Max Super Specialty Hospital, Mohali & Gurugram
Commercial/Office Projects	IDBI Bank Office Building, BKC, Mumbai Punjab National Building, BKC, Mumbai Metropolitan Mall for MGF Group, Mehrauli, Gurgaon Birsra Munda Airport Terminal Building, AAI, Ranchi	Retail Block at DIAL II, Aerocity, New Delhi Data Centre Complex, Bhubaneswar, Orissa 5000 seating capacity Public Auditorium, Guwahati Lachit Maidam Memorial and Cultural Complex, Lahdoigarh, Jorhat
Residential Projects	Housing complex for Commonwealth Game - 2010 Brigade Metropolis Housing complex, Bangalore RTI and Hostel for CAG OF India, GN Block, Mumbai South City Residential Tower, Kolkata	The Arbour Project, DLF Home Developers Ltd, Gurugram The Aravallis from Puri Construction, Haryana Officer Enclave, Patna Z-1 high rise residential complex, Bhubaneswar
Educational Institutions	IIT Campus, Mandi, Haryana IT/ITES Campus for Agilent Technology, Manesar, Haryana Indian Institute of Corporate Affairs, MCA, Manesar, Haryana	Enterprise Computing and Cybersecurity Training Institute, Bhubaneswar, Orissa Hostel in the campus of Plaksha University, SAS Nagar, Punjab New Medical College & Hospital, Bongaigaon (Assam)

Source: Company, SMIFS Research

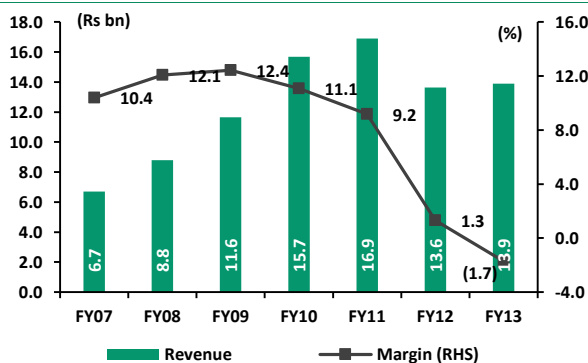
Successfully navigated through various cycles, highlighting prominence

Over the course of its long experience, Ahluwalia has gone through numerous economic and industry-related cycles. However, its extraordinary ability to adapt to the circumstances and response have emerged the company triumphant. In this regard, we have made a concerted effort to highlight the company's reactions to the prevailing economic cycles.

FY10-18: Implemented a business transformation strategy following the downturn in the real estate sector

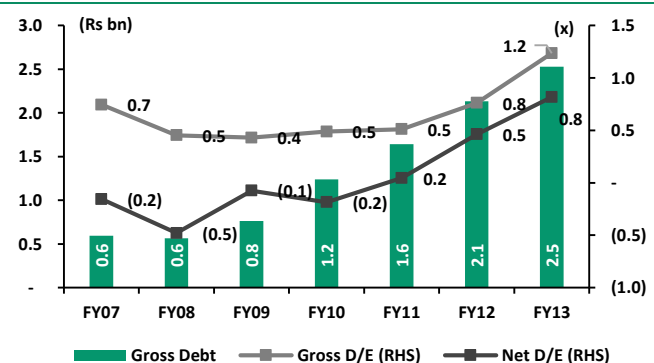
- Ahluwalia exhibited superior financial performance during FY07-10 achieving 32.8% revenue CAGR, ~10.5-12.5% operating margin, net cash surplus position, and ROE/ROCE >25%. These impressive results were driven by the strong operating environment and a favourable capex cycle within the private sector. Additionally, accelerated execution pace and stringent financial discipline played a role in company's success.
- However, the real estate downturn experienced between FY11-14 had a detrimental impact, leading to consistent decline in revenues (from Rs16.9bn in FY11 to Rs9.6bn in FY14), a strained balance sheet (net D/E: 0.8x), delayed payments from builders, and an order backlog with excessive share of private sector. Subsequently, the company made the decision to regroup and implement a business transformation strategy.
- Over the following period of FY14-17, it redirected attention from private residential fixed-price projects to public escalation-based contracts in diverse sectors (including education, healthcare, industrial, and commercial). This strategic move assisted in mitigating the difficulties presented by struggling private real estate builders and their delayed payments. Further, it renegotiated contracts with private clients to include input cost escalations, and discontinued to provide bank guarantees to many.
- As the older legacy jobs were gradually removed from the orderbook, the acquisition of new orders at more advantageous margins substantially augmented the profitability. Furthermore, the infusion of funds from promoters (~Rs500mn in Dec'14) and increased cash generation led to a reduction in leverage and interest expenses, thereby further enhancing profitability and cashflows. Ultimately, by FY17-end, it has achieved a net-cash position once again with strengthened and diversified order backlog.

Fig 2: Performance moderated in latter part of FY07-13



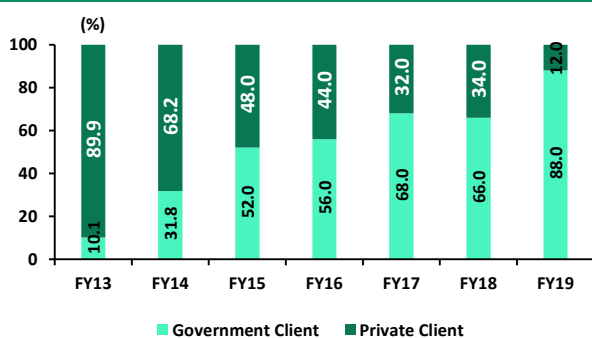
Source: Company, SMIFS Research

Fig 3: While notable rise in debt seen during FY07-13



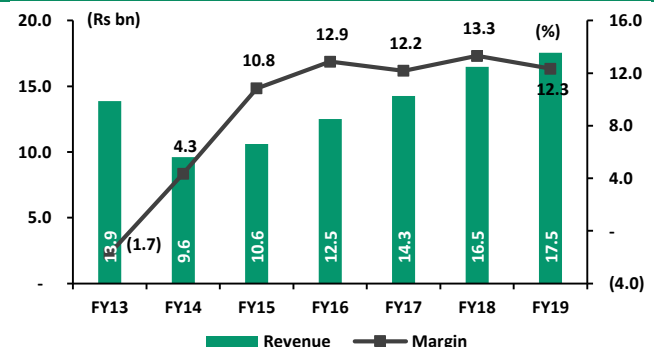
Source: Company, SMIFS Research

Fig 4: Prudent strategy led to higher public clientele mix*



Source: Company, SMIFS Research; Note: *% of order book at year-end

Fig 5: Effectively, financial performance improved

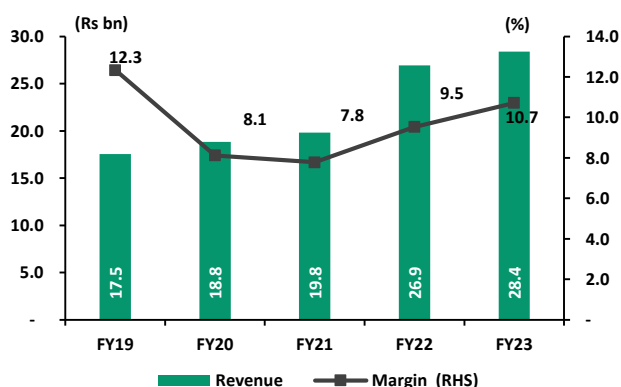


Source: Company, SMIFS Research

FY19-22: Economic slowdown, and disruptions caused by Covid'19 pandemic softened performance

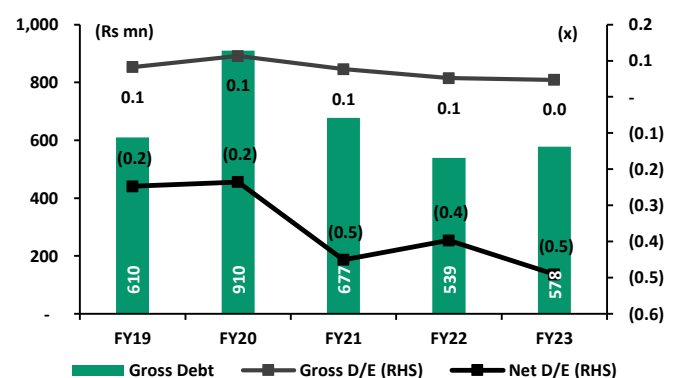
- Despite having a healthy order backlog, Ahluwalia faced execution difficulties during FY19-21 arisen due to liquidity constraints in the wider markets, and labour shortages led by disruptions caused by the Covid-19 pandemic. Additionally, delays in project approvals, environmental concerns, and tree-felling issues in certain projects, as well as construction bans imposed by the National Green Tribunal (NGT) in the NCR region due to escalating pollution levels have further exacerbated the company's execution challenges. This led to mere 6.3% revenue CAGR during FY19-21.
- It also experienced a decrease in operating margin, dropping from 12.3% in FY19 to multi-year lows to 7.8% in FY21, primarily due to slowed execution pace and recognition of provisions/write-offs in receivables related to struggling real estate orders. Furthermore, collections were affected as certain state authorities, particularly West Bengal and Bihar, redirected their focus towards welfare and Covid'19-related matters. The Covid'19-compelled circumstances also prolonged creditors days.
- In response, the company has taken proactive measures including the arrangement of transportation for the return of laborers to the work sites, while also providing additional benefits to instil confidence and retain their loyalty. This strategic approach has resulted in a gradual improvement in the availability of labour during the uncertain times of the Covid-19 pandemic. Furthermore, it also took decision to proceed cautiously with order additions, considering both the labour situation and the ongoing projects at hand, with a focus on streamlining execution as a key priority.
- The company had submitted foreclosure requests and has handed over some projects back to the clients due to a lack of progress in execution. Additionally, the company has become more meticulous in its selection of projects and clients with whom it intended to work. Furthermore, it incorporated greater safety margins in the operations.
- In some cases, the company acquired real estate inventories from clients (such as Jaypee) in lieu of payments and subsequently proceeded to sell these inventories independently. This approach facilitated a more expeditious realization of funds.
- These measures have eased company in achieving a significant recovery, and was able to post healthy 19.7% revenue CAGR during FY21-23. Additionally, there has been an improvement in operating margin, increasing from 7.8% in FY21 to 10.7% in FY23. It has also managed to significantly reduce its gross debt, reaching near to Nil (~Rs27mn at FY23-end), and have witnessed notable enhancement in operating cash flows, and a more efficient working capital cycle.

Fig 6: Lacklustre show over FY19-21; recovered strongly



Source: Company, SMIFS Research

Fig 7: Nevertheless, gross debt* remained at min. level



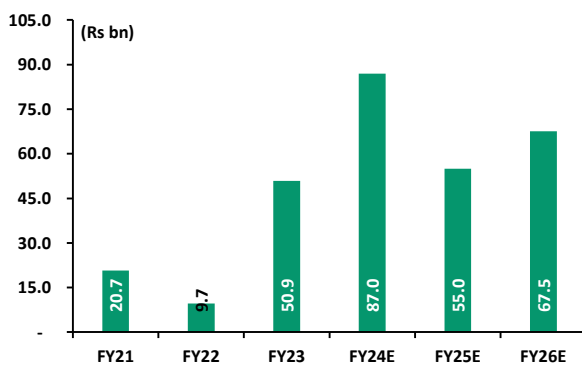
Source: Company, SMIFS Research; Note: *Gross debt (excluding lease liability) was ~Rs27mn at FY23-end.

FY23-FY26E: Predicting an era of flourishing

Healthy and diversified order book aided by strong inflows

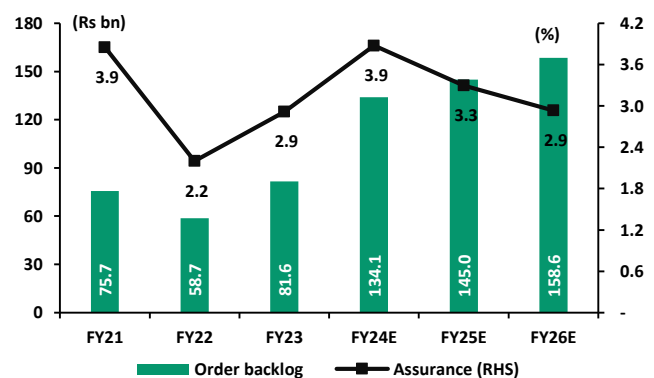
- The construction sector has witnessed widespread distribution of awards, as the government has prioritized enhancing infrastructure, and the private sector has directed its efforts towards bolstering capacity in post covid'19 period. With sensible competition and through company's diversified presence, Ahluwalia has able to seize opportunities, resulting in substantial inflows during FY23 (Rs50.6bn) and YTD FY24 (Rs52.6bn). Most projects typically fall within the range of Rs1-5bn, while the largest contract being the redevelopment of the Chhatrapati Shivaji Maharaj terminal in Mumbai, valued at Rs24.5bn.
- The strong inflows have contributed to the order backlog reaching a record high of Rs120.8bn at Q2 FY24-end, indicating a healthy assurance of ~3.7x TTM revenues. Furthermore, the current assurance strengthens to >4.5x considering the L1 position in the Gems and Jewellery Park project, Navi Mumbai (valued at ~Rs28.4bn). Moving forward, the company aims to add ~Rs10bn more in the rest of FY24, to hedge against a slowdown, if any, from the impending general elections (ordering generally slows closer to elections).
- The government contracts account for ~70% of the order book as of 30th Sept'23. This marks a significant shift against its earlier position, during which there was a greater reliance on private contracts (order backlog contribution: 90% in FY13; 48% in FY15; 34% in FY18) facing execution challenges and payment issues.
- Besides, the company's order book position is geographically diversified across 15 Indian states and Nepal. Additionally, the company has reduced its exposure to the residential/real estate segment and has consequently increased the exposure in other segments such as hospitals and educational institutions, resulting in a reduction of counterparty risk. Nevertheless, in light of the improving profile of real estate players, the company intends to increase its overall share in the private sector (with a medium-to-long-term target of ~40% in order backlog).
- Considering above, we have projected an order inflow of ~Rs87bn in FY24, ~Rs55bn in FY25, and ~Rs68bn in FY26. We anticipate that Ahluwalia to be a prime beneficiary in the medium term with the government's thrust on the healthcare and education sectors, as well as the reconstruction of prominent government structures. Additionally, the revival of capex from the private sector is expected to contribute to the clientele diversification strategy.

Fig 8: Inflows improved in FY23; anticipate continuity



Source: Company, SMIFS Research Estimates

Fig 9: Healthy inflows to translate into healthy order backlog



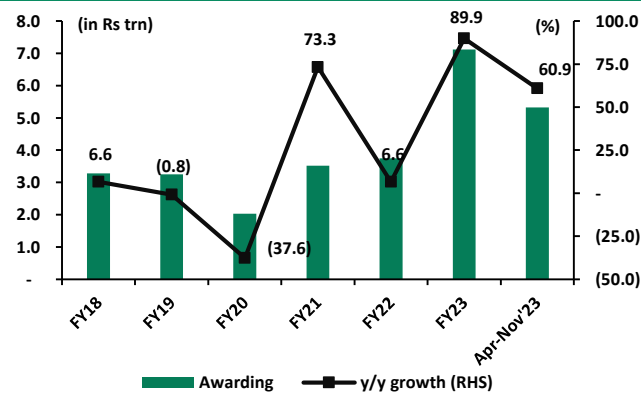
Source: Company, SMIFS Research Estimates

The thriving infrastructure sector presents abundant prospects

Ahluwalia is positioned favourably to attract substantial inflows over the medium-to-long term with a strong infrastructure development and significant growth in sub-segments.

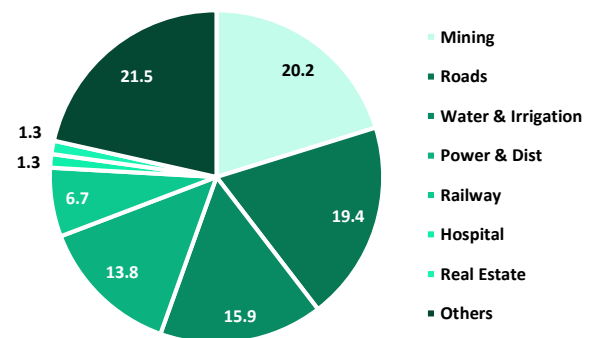
- India's Infrastructure industry expanding at healthy pace.** The Indian infrastructure industry has demonstrated a robust ~14% CAGR in awarding over the past decade, driven by investments in projects related to roads and highways, water and irrigation, hospitals, real estate, mining, and urban infrastructure. Notably, in FY23, the project awards experienced a remarkable ~90% y/y surge, reaching a total of Rs7.1 trn. Further, the momentum continued during Apr-Nov'23, witnessing a substantial 61% y/y growth (to ~Rs5.3 trn). We anticipate the positive trend to persist in the medium to longer term due to strong focus on infrastructure development driving economic growth and social transformation. The code-of-conduct implementation to have limited impact.

Fig 10: Significant rise in project awards seen in FY23



Source: Industry, SMIFS Research

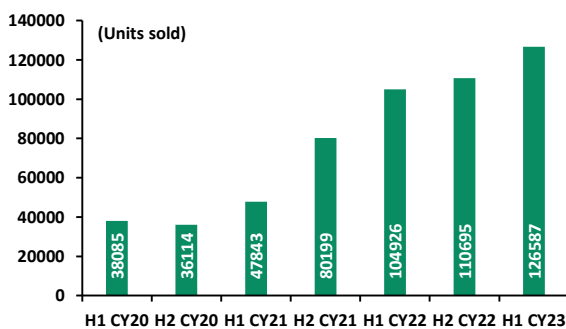
Fig 11: Mining, roads, water & power forms major pie in awarding*



Source: Industry, SMIFS Research; * Project awarding during FY23

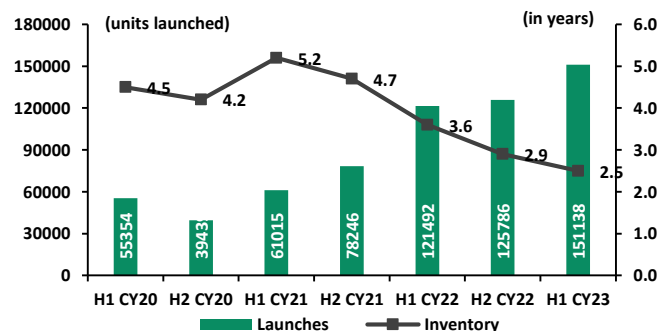
- Residential sector witnessed a remarkable upswing post Pandemic.** The residential market has embarked on a new chapter of growth propelled by buoyant consumer sentiment, robust property launches, competitive pricing, and a conducive interest rate regime. This growth is further exemplified by the substantial rise in sales volume across the top seven cities, which increased from 36,114 units in H1CY20 to 126,587 units in H1CY23.
- Improved affordability due to a decrease in the home loan to income ratio, an increase in the working population, the stabilization of interest rates, the preference of buyers for larger quality homes, an increase in household savings, and the consolidation of the supply-side are anticipated to facilitate continued growth in the residential sector.
- Driven by robust consumer demand, the number of launches in the top seven cities has surged to a record high of 151,138 units (at H1CY23). Nevertheless, the evaluation of inventory level indicates a decline in the projected timeframe to sell. At H2CY21-end, it was at 5.2 years, but it has since dropped to 2.5 years at H2 CY23-end. Consequently, developers are likely to continue launching new projects to keep up sales momentum.

Fig 12: Residential sales scaled to new high during H1CY23



Source: JLL, SMIFS Research

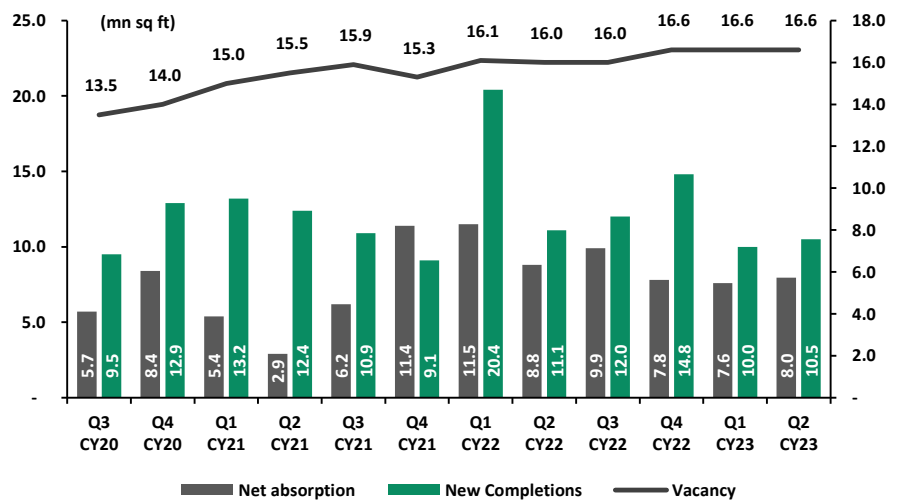
Fig 13: Despite higher launches, inventory is moving southwards



Source: JLL, SMIFS Research

- Office market displaying resilience.** The office market in India has experienced a significant increase in net absorption, with 25.9mn sq ft in CY21, 38mn sq ft in CY22, and 15.6mn sq ft in H1CY23. This growth is particularly noteworthy considering the challenges posed by the Covid-19 pandemic, the adoption of hybrid workplace strategies by IT/BFSI-related companies, and a volatile global economic climate. However, completions have surpassed absorptions as suppliers are anticipating strong demand from the domestic firms while global companies are expanding their operations (albeit at a slightly slower pace). While we expect temporary slowdown in new supplies with higher vacancy rate, medium-to-longer term growth remains intact.

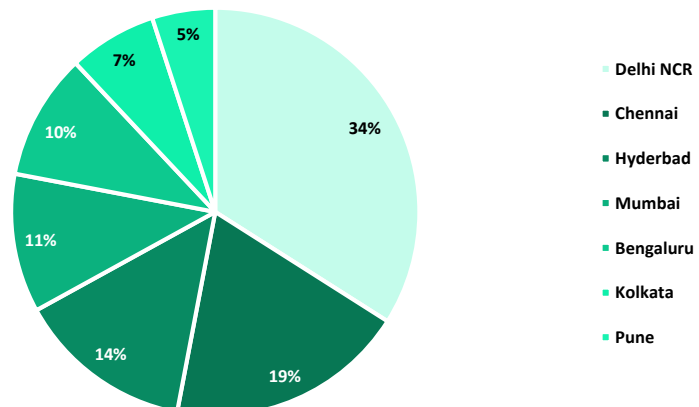
Fig 14: New completions outpaced net absorptions across past many quarters



Source: JLL, SMIFS Research

- Retail sector on an upward growth trajectory.** CY22 witnessed a strong resurgence of India's retail sector, which has carried over into H1CY23. The sector's growth has been driven by stable economic conditions and restored consumer confidence, resulting in a surge of leasing activity and new store launches by both national and global retailers. The demand for quality retail spaces has increased due to their effective management, robust support infrastructure, and low vacancy rates. Malls are adapting to the changing needs of shoppers by implementing placemaking initiatives that offer distinctive experiences and amenities that cannot be found online.
- The retail stock in the top seven cities of India reached 89mn sq ft, with ~1.1mn sq ft of mall supply being recorded during H1CY23. Ahead, the sector is expected to see an addition of ~40mn sq ft of shopping mall stock between H2CY23 and CY27 among the top seven cities.

Fig 15: Supply* of shopping malls to be dominated by Delhi-NCR over H2 CY23-CY27



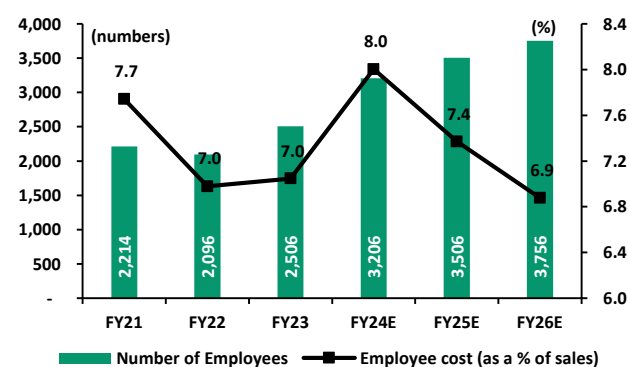
Source: JLL, SMIFS Research; Supply expected to be ~40mn sq ft during H2 CY23-CY27

- **The post-pandemic era brought about a major transformation in healthcare sector.** India's healthcare infrastructure encountered a significant hurdle during the pandemic when the demand for infrastructure and service delivery reached its peak. Nevertheless, India adeptly navigated the crisis and emerged as a trailblazer in managing such circumstances. This triumph has opened doors for heightened investments and advancements to effectively combat forthcoming life-threatening diseases, pandemics, and foster the growth of the healthcare and life sciences sector in the nation.
- At present, the healthcare infrastructure encompasses a diverse array of facilities, spanning from primary healthcare centres to tertiary care hospitals. It is anticipated that the healthcare system in India will attain a value of USD50bn by CY33, propelled by investments from both the public and private sectors. Additionally, the country benefits from a large pool of highly skilled medical professionals, including doctors, nurses, and paramedical staff. Furthermore, the growth of India's healthcare sector is bolstered by medical tourism, cost-competitiveness, and comparatively low expenses for clinical research.
- Real estate plays a crucial role in facilitating this transformation by providing modern, fully equipped healthcare facilities. Developers and investors are working together with healthcare providers, both public and private, to build and improve healthcare facilities across the country. These collaborations are driving the progress of state-of-the-art hospitals, clinics, diagnostic centres, laboratories, and specialized treatment centres.

Proficient core design and execution teams to facilitate construction pace

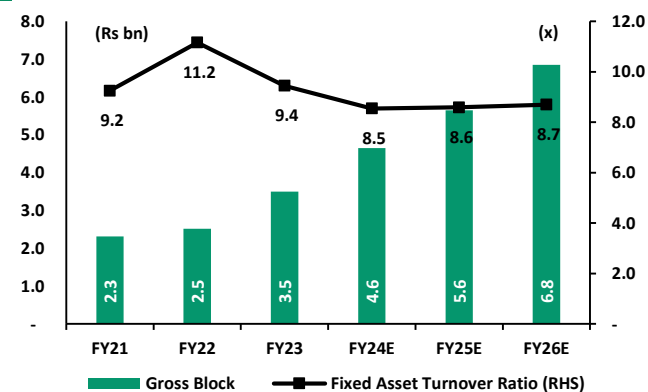
- Ahluwalia possesses a robust internal execution team comprising 2,506 permanent employees and 12,138 skilled workers (as on 31st Mar'23), who have demonstrated their capabilities in executing complex large-scale projects within specified timeframes.
- Realizing the crucial role played by the efficiency of laborers in the progress of a project site, it has introduced digital solutions to facilitate the mobilization, onboarding, and monitoring of workmen, thereby enhancing their productivity.
- Further, the company has cultivated internal proficiency in various areas such as plumbing, fire-fighting, electrical systems, HVAC, as well as the installation of aluminium and glass facades, aluminium doors, windows, and partitions. Moreover, the presence of in-house architectural support allows them to meticulously prepare comprehensive working drawings. This harmonious amalgamation of capabilities and services bestows a distinct advantage.
- The achievement of effective implementation is attained through the consistent acquisition of vital machinery, such as ready-mix transit mixers, tower cranes, shuttering materials, batching plants, and concrete plants (gross block: ~Rs3.5 bn at FY23-end) or occasionally engaging in equipment rental (~1.6% of the FY23 revenues).
- All of these measures enable Ahluwalia to maintain control over the execution of projects and generate better profit margins.

Fig 16: Employee cost* to normalise with better efficiency



Source: Company, SMIFS Research Estimates; * as a % of sales

Fig 17: Fixed asset turnover to remain healthy



Source: Company, SMIFS Research Estimates

Fig 18: Key equipment owned by Ahluwalia and used during the construction process

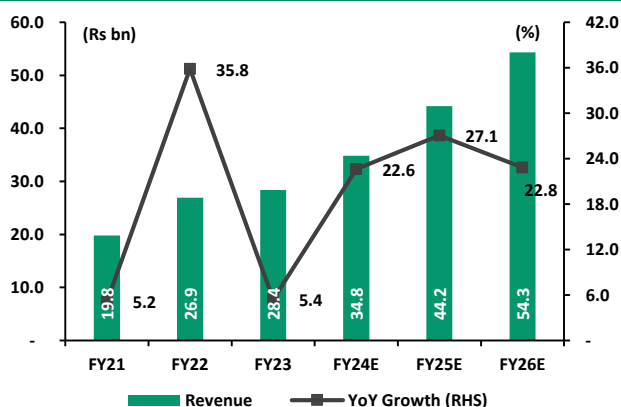
Equipments	Supplier's Name/ make
Air Compressor Machine	Elgi Equipments
Bar Bending/Cutting Machine –Mechanical/ Hydraulics	Crompton/Bachan/ Reputed suppliers
Batching plant	Bhai/Schwing/Maxocrete/Polytech
Builder Hoist	Bachan Construction/Jayen
Concrete Block making machine	Construction Equipment
Concrete Mixers	Bachan / Reputed suppliers
Concrete Pumps	Sany/Schwing Stetter
Core Cutting Machine	Hilti India
DG Sets	Kirloskar/Cummins
Dumpers	Tata
Earth Compactor - Electric/fuel driven	Construction and Applied Equipment /Respected suppliers
Excavator cum Loader	Volvo / L&T
Excavator- JCB	JCB India Limited
Steel Loader	Ingersoll Rand
Tipper	Tata
Tower Cranes	Alpha /Ace bhai
Vacuum Dewatering System	Aquarius Technologies
Loader	Cater Pillar

Source: Company, SMIFS Research

Projected to attain 24.1% revenue CAGR during FY23-26E; gradual margin enhancement likely

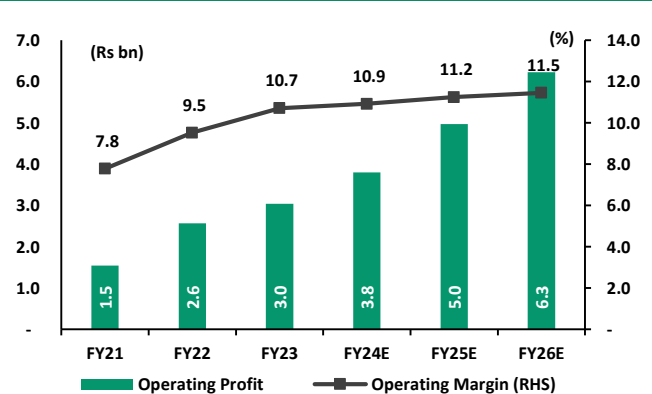
- Following the modest 6.3% CAGR observed during FY19-21 (which was impacted by liquidity constraints in the broader markets, delays in project approvals, and labour shortages resulting from disruptions caused by the Covid-19 pandemic), the company has achieved a substantial revenue growth of 35.8% in FY22 with normalization in execution albeit on the lower base. However, the growth rate moderated once again to 5.4% in FY23 due to a) lower executable order backlog, b) the loss of working days caused by pollution-related issues in the National Capital Region, and c) heavy and prolonged rainfalls across project sites. A part of the ordinary revenue in FY23 was also attributed to the early stage of a project lifecycle (hence, preliminary works underway) for some of the recently added orders and, consequently, limited contribution.
- During H1FY24, Ahluwalia regained its momentum in execution, thanks to the improved executable order backlog and gradually rising pace of execution. As a result, the company has achieved a healthy 35.1% y/y growth in its topline (to Rs16.7bn). Looking ahead, we have projected a CAGR of 24.1% during FY23-26E, leading to the revenue of ~Rs54.3bn in FY26. This growth is expected to be bolstered by a favourable order book position, healthy inflows, and upped execution pace.
- The operating margins have been trending upwards and have shown improvement to 10.7% in FY23, up from the low of 7.8% in FY21. This is aided by the higher contribution from newly acquired better margin projects and higher control over costs. Furthermore, the absence of major write-offs/provisions towards doubtful debtors in FY23 (Rs83mn in FY23, Rs103mn in FY22, Rs536mn in FY21, and Rs421mn in FY20), contributed to the improvement in margins.
- The operating margin was at 10.4% in H1FY24. The management has provided guidance for ~11% in FY24 and ~11.5% in FY25. We believe, the expansion in margin would be largely driven by the execution of better margin projects and the efficient absorption of operating overheads. The presence of price-escalation clauses with respect to input costs for a majority (~76% of overall contracts) also protects the profitability to an extent. However, we remain conservative in our estimates and expect the company to post ~10.9% margin in FY24, ~11.2% in FY25, and ~11.5% in FY26.
- Effectively, net profitability is likely to experience a CAGR of 26.7%, resulting into ~Rs4bn bottom-line by FY26E. This improvement is expected to be driven by robust revenue growth, margin expansion, and favourable interest and depreciation expenses.

Fig 19: Revenue to improve at 24.1% CAGR over FY23-26E



Source: Company, SMIFS Research Estimates

Fig 20: Margin likely to reach ~11.5% by FY26E

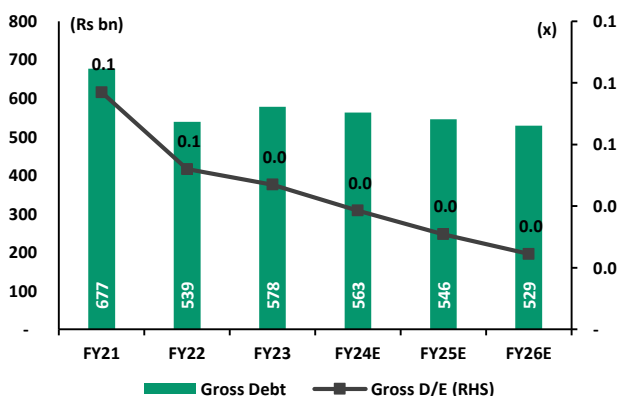


Source: Company, SMIFS Research Estimates

Comfortable capital structure and strong liquidity position speak volumes

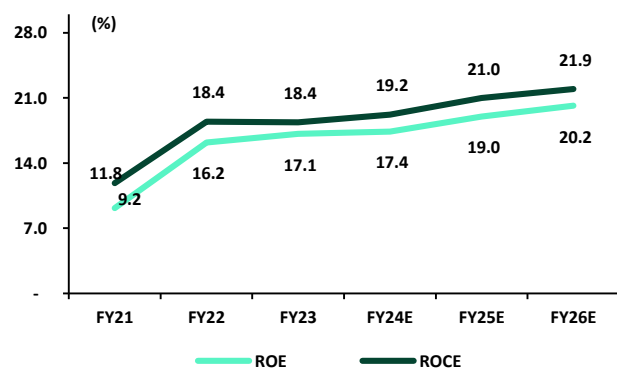
- Ahluwalia's increased emphasis on projects undertaken by public sector entities, carefully selecting marquee private clients' projects after thorough evaluation, and effectively managing collections has contributed to its reduced reliance on external debts. Consequently, the gross debt (excluding lease liability) as of 30th Sept'23 was minimal at Rs320mn.
- Further, the liquidity position has remained robust, with a cash and cash equivalent balance of Rs5.2bn (including Rs3.2bn in bank deposits at Q2FY24-end). Effectively, the company maintains net cash surplus position.
- The company meets its working capital requirements through mobilisation advances (at Rs4.4bn at Q2FY24-end) with low reliance on external borrowings as reflected from the average fund-based working capital limit utilisation. Even including the mobilization advance (long-term and short-term as debt), the D/E ratio has improved to 0.26x at FY23-end (vis-à-vis 0.39x at FY21-end). At Q2FY24-end, the ratio had risen to 0.35x as a result of an increase in mobilization advance obtained from a higher number of newer projects, but it is expected to return to normal by year end.
- During Q2FY24, the company has effectively increased its bank credit facilities from ~Rs19.4 bn to ~Rs20.4 bn, resulting in a net increase of ~Rs1 bn. The current utilization stands at ~Rs17.2 bn. We are of the opinion that the expanded unused limits likely to enable the company to secure a larger number of projects and accelerate the pace of execution without facing significant limitations.
- With no major asset-heavy investments and management's philosophy of maintaining low leverage, we expect maintenance of net cash surplus position over medium term.
- The company's net working capital days (incl. retention and unbilled revenue) stood at 83 days at FY23-end. This favourable position is primarily due to efficient management of inventory days (31 days) and satisfactory receivable days (against RA; 78 days). The company's long-standing relationships with suppliers contribute to extended creditor days (86 days at FY23-end). Unbilled revenue and debtors' days (against retention) was at 35 days and 25 days respectively. Looking ahead, we anticipate working capital days to hover at 92-95 days over FY24-26E due to the extended debtor and inventory days resulting from the execution of larger government projects.
- The return ratios are expected to enhance as profitability improves, with ROE/ROCE increasing from 17.1%/18.4% in FY23 to 20.2%/21.9% in FY26.

Fig 21: Gross Debt* to remain at minimal level



Source: Company, SMIFS Research Estimates; *gross debt (excluding lease liability) was Rs27mn in FY23 and estimated to be ~Rs42mn in FY24E, ~Rs53mn in FY25E, ~Rs65mn in FY26E.

Fig 22: Return ratios on the improving trend



Source: Company, SMIFS Research Estimates

Bus terminal in Kota developed on BOT basis, expecting no major asset heavy investment ahead

- On 19th Sept'07, Ahluwalia ventured into the realm of asset ownership and secured the bid from Rajasthan State Road Transport Corp (RSRTC) for the development of a bus terminal, depot, and commercial complex in Kota, Rajasthan. This project was bagged on a BOT basis and utilized the land owned by RSRTC. Initially, it was anticipated that the construction would be completed within a span of 18 months. However, as a result of delays in the designing phase and obtaining essential approvals, the construction process was extended and ultimately concluded in FY15.
- In accordance with the terms of the contract, the company has undertaken the construction of the building at its own expense and has incurred a total expenditure of ~Rs1.3bn to date. This amount includes the discounted value of license fees amounting to Rs0.3bn (recognized upon the application of Ind AS 116 effective from 1st Apr'19).
- The company has the right to lease ~300,000 sq ft of commercial space and collect rental income for a period of 30 years with an option to extend for an additional period of 10 years. Additionally, any revenue generated from advertisements located outside the building will be shared equally between RSRTC and the company, in a 50:50 ratio.
- Upon the conclusion of the leasing period, Ahluwalia is obligated to transfer possession of the commercial complex to RSRTC. It is not authorized to sell any part of the building.
- The maintenance of Bus Terminal and Depot is the responsibility of RSRTC. However, there is a contractual obligation on the company to maintain the commercial complex. Nevertheless, the actual expenses for maintenance are recuperated from the occupants of the complex.
- We have observed that the company has not generated any profits in any given year. In the recent past, it has highlighted that ~82% of the ground, first, and second floors of the property have been leased out and has plans to lease out the majority of the remaining third and fourth floors in the near future. This holds the potential to transform the project into a profitable venture.
- The company is looking to monetize the asset but discussion and negotiations with potential investors to take place in FY25. Overall, we are not particularly in favour of the company's expansion into asset ownership. We have observed similar endeavours by EPC companies in the previous cycles, which resulted in increased leverage and ultimately led to severe financial difficulties. Ahead, we hope that the management will refrain from making asset-heavy investments in the future.

Fig 23: Details regarding income and expenditure of the Kota property

Particular	FY19	FY20	FY21	FY22	FY23
Rental Income	4.5	6.2	2.1	3.4	5.9
Less: Direct operating expenses (including repairs and maintenance)	9.8	8.2	6.5	5.9	5.9
Loss from investment properties	(5.3)	(2.1)	(4.4)	(2.6)	(0.0)
Less: Depreciation expense	3.1	4.3	4.3	4.3	4.4
Net Loss	(8.4)	(6.3)	(8.7)	(6.8)	(4.4)

Source: Company, SMIFS Research

Fig 24: Visual representation depicts the Kota complex



Source: Company, SMIFS Research

Fig 25: Closer view of the Kota complex



Source: Company, SMIFS Research

Commonwealth Games 2010: understanding the company's role

- Ahluwalia, alongside various other contractors like NCC, Unity Infra, and Era Infra, were granted different contracts for the construction of facilities required for the Commonwealth Games 2010. While CPWD directly awarded a few orders, the most significant order was bestowed upon Ahluwalia by Emaar MGF, which held developmental rights from the Delhi Development Authority. Initially, the accumulated value of the received orders for the company was ~Rs9.5bn, but it subsequently rose to ~Rs11bn.

Fig 26: Ahluwalia secured various orders towards Commonwealth Games 2010

Order Description	Awarded Date	Client	Amount (Rs mn)
Housing Complex at Khelgaon, CWG Village (total area: 2.2 mn sq ft)	09-Aug-07	Emaar MGF	6,880
Dr. S.P.M. Swimming Pool Complex (area:0.34 mn sq ft)	04-Jan-08	CPWD	2,297
Upgradation and construction of Indira Gandhi Indoor Stadium	18-Apr-09	CPWD	238
Various other works for CWG	18-Apr-09	CPWD	53
Total			9,468

Source: Company, SMIFS Research

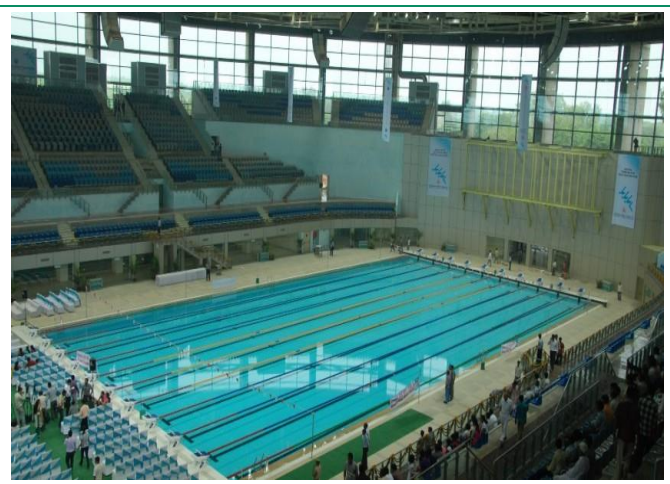
- However, a multitude of issues emerged before and during the 2010 commonwealth games. These included a) construction delays that had potential to jeopardize the occurrence of the event, b) incomplete residential accommodations, c) issues with equipment functionality, and d) the unfortunate collapse of a footbridge that was being built for the Games. Moreover, these instances of poor management were exacerbated by irregularities observed in the awarding process. With this, the payments for contractors went into trouble.
- At the time of payment issues (at FY10-end), it had submitted Running Account bills (R.A.) totalling ~Rs6.4bn, out of which ~Rs5.7bn were certified. Additionally, they had raised bills/claims of ~Rs4.2bn on the client for the incremental work done on account of deviations and other aspects. However, the client had in-turn raised a counter claim of ~Rs2.5bn against the company at that time.
- The company opted for the arbitration process against Emaar MGF as negotiations and settlement failed to yield any progress. This process has been ongoing for several years. Currently, the company has submitted a claim of ~Rs5bn, while the client has countered with a claim of ~Rs11bn. The management holds the belief that the client's demand is not sustainable and lacks a strong basis. Furthermore, the management expresses optimism about a favourable resolution, although the precise timing of the outcome remains uncertain.

Fig 27: Visual depiction of the Khelgaon Housing complex



Source: Company, SMIFS Research

Fig 28: A glimpse of Dr. S.P.M. Swimming pool complex



Source: Company, SMIFS Research

Corporate Governance

It is our firm conviction that sound corporate governance practices are indispensable in fostering the confidence of the esteemed shareholders. In this regard, we are pleased to offer a comprehensive blueprint on corporate governance, which encompasses critical aspects such as the board of directors, remuneration of key managerial personnel, and contingent liability. This framework is intended to provide our valued investors with the assurance they require in their dealings with Ahluwalia.

Promoters' Shareholding

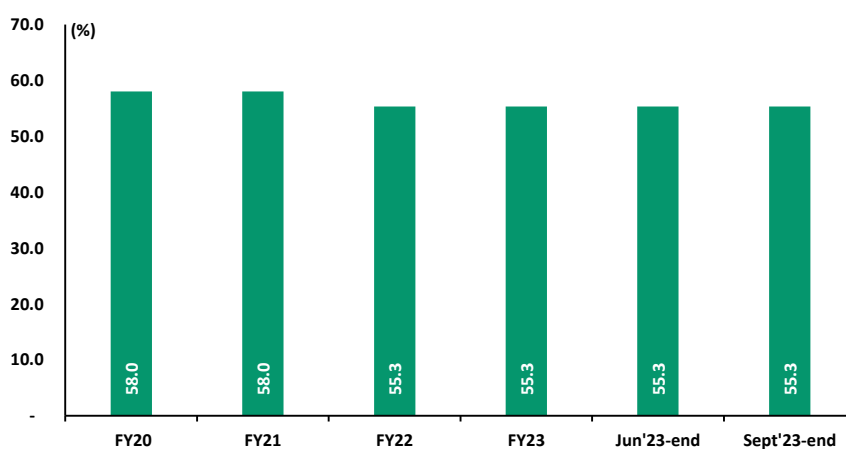
Currently, the majority of the equity capital is held by the promoters, who possess a collective stake of ~55.3%. Mrs. Sudershan Walia holds the largest share among the promoters, with a stake of 30.5%, followed by Mr. Bikramjit Ahluwalia (16.3%) and Mr. Shobhit Uppal (6.4%). Additional details pertaining to the shareholding and its variations can be found in the accompanying table and chart.

Fig 29: Promoter Shareholding*

Particular	% Holding
Mrs. Sudershan Walia	30.53
Mr. Bikramjit Ahluwalia	16.34
Mr. Shobhit Uppal	6.43
Mrs. Rachna Uppal	1.83
Mr. Mukta Ahluwalia	0.05
Mrs. Rohini Ahluwalia	0.05
Mr. Vikas Ahluwalia	0.05
Others promoter group - Tidal Securities Pvt Ltd	0.04

Source: BSE India, SMIFS Research; *as on 30th Sept'23

Fig 30: Promoter's shareholding



Source: BSE India, SMIFS Research

During Q2FY22, Mrs. Sudershan Walia (one of the Promoters) has reduced its stake to 30.5%, down from the previous 33.2%. Consequently, the promoter's ownership has decreased to 55.3%. Nevertheless, the promoter's shareholding has remained consistent over the past two years.

Release of pledged promoter shares signifies enhanced level of confidence

- Historically, pledging of shares is a financial arrangement in which the promoters of a company pledge their shares as collateral to secure a loan or meet their financial requirements.
- In this regard, Ahluwalia has experienced a peak in pledges during Jun'17 to Dec'20 period wherein it reached 40.8% of promoter holding/23.7% of overall shareholdings.
- With the company's increasing financial stability and the utilization of the improved balance sheet, it has prioritized the refinancing of such facilities and the release of pledges. As a result, the pledges have been significantly reduced to 5.4% of promoter holding / 3.0% of the overall share capital (as of Sept'23).
- We note that there are no pledges by the promoter for availing any financing in their personal capacity.

Fig 31: Decline of share's pledge observed in the recent years

	Mar-20	Mar-21	Mar-22	Mar-23	Jun-23	Sep-23
Total equity shares (mn)	67.0	67.0	67.0	67.0	67.0	67.0
Promoter shares (mn)	38.9	38.9	37.1	37.1	37.1	37.1
Promoter holding	58.0%	58.0%	55.3%	55.3%	55.3%	55.3%
Total pledges (mn)	15.9	10.6	9.8	4.8	2.0	2.0
% of total equity shares	23.7%	15.8%	14.6%	7.2%	3.0%	3.0%
% of promoter holding	40.8%	27.3%	26.4%	12.9%	5.4%	5.4%

Source: BSE India, SMIFS Research

Promoter Remuneration

The promoter remuneration stood at ~ 1.4% of PBT as on FY23.

Fig 32: Remuneration of promoter

(Rs in mn)

Promoter	FY19	FY20	FY21	FY22	FY23
Mr. Bikramjit Ahluwalia	12.6	12.6	12.6	12.6	12.6
Mr. Shobhit Uppal	16.8	16.8	16.8	16.8	16.8
Mr. Vikas Ahluwalia	6.0	6.0	6.0	6.0	6.0
Total Remuneration	35.4	35.4	35.4	35.4	35.4
As a % of PBT	2.0%	3.7%	3.4%	1.7%	1.4%

Source: Company Annual Reports, SMIFS Research

Independent Director's Compensation

Independent directors were cumulatively paid ~Rs1.7mn which is 0.06% of PBT as on FY23. Independent directors were paid sitting fees.

Fig 33: Remuneration of Independent Director

(Rs in mn)

Name	FY23 Compensation (Rs in mn)	As % to PBT (FY23)
Mr. Arun Kumar Gupta	0.5	0.02
Dr. Sushil Chandra	0.5	0.02
Mrs. Sheela Bhide	0.2	0.01
Mr. Rajendra Prashad Gupta	0.5	0.02
Total	1.7	0.06

Source: Company Annual Report, SMIFS Research

Board Composition

Independent directors constitute 50% of the board composition. The details are given below:

Fig 34: Board Composition

	FY19	FY20	FY21	FY22	FY23
Executive Managing Directors	1	1	1	1	1
Non-Executive Independent Directors	4	4	4	4	4
Executive Whole Time Directors	3	3	3	3	3

Source: Company Annual Reports, SMIFS Research

Contingent Liabilities

The majority of the contingent liabilities pertain to a) earnest money deposits, security deposits, and bank guarantees provided for performance and b) various tax demands. To provide further clarification, the earnest money deposit is a compulsory prerequisite for most government and private contracts and serves as a deposit that guarantees the bidders' dedication to the contract. Typically, it constitutes 1-2% of the total tender value. Additionally, upon winning the project, the contractor is obligated to deposit a sum, generally in the form of a bank guarantee, equal to 5-10% of the cost of the work. This deposit is intended to safeguard the interests of the client in the event of improper performance of the contract. Therefore, >80% of the contingent liability is kind of compulsory prerequisite required towards the company's business.

Fig 35: Contingent Liabilities

(Rs in mn)

Particulars	FY19	FY20	FY21	FY22	FY23
A) Claims against the company not Acknowledged as debts					
(i) Value Added Tax liability	109	99	126	126	126
(ii) Excise duty demand	47	67	84	100	100
(iii) Service tax demand on alleged:					
- Wrong availment of abatement on account of free supply of material by the Client	60	60	60	60	60
- Composition scheme	119	119	450	742	742
- Exempted projects	208	208	319	319	319
- Others	127	101	141	141	133
(iv) Goods & Service Tax	-	-	6	7	44
(v) Income Tax demand	-	-	-	11	26
(vi) Provident fund demand	546	546	546	546	546
(vii) Demand of stamp duty on Real Estate Project	6	6	6	6	6
(viii) Other Claims not Acknowledged as debts against the company	359	360	390	307	295
B) Guarantees:					
Guarantees given by the bankers on behalf of the company:					
Performance	4,281	5,328	3,610	3,168	4,617
Other	4,561	5,629	7,443	7,379	8,051
Indemnity Bonds/Performance Bonds/ Surety Bonds/Corporate guarantees given to clients	220	217	521	349	197
Total	10,643	12,739	13,701	13,259	15,261
Net worth	7,384	8,040	8,800	10,365	12,298
Contingent Liabilities (As a % of Net worth)	144.1	158.5	155.7	127.9	124.1

Source: Company Annual Reports, SMIFS Research

Related Party Transaction

As per our analysis, nothing specific has come to our notice. The related party transactions were varying depending on rent and dividend paid, and loans given to the related parties.

Fig 36: Related Party Transaction

(Rs in mn)

Particulars	FY19	FY20	FY21	FY22	FY23
<u>Rent Paid</u>					
Mrs. Sudershan Walia	5.4	5.4	6.3	6.3	6.3
Mrs. Rachna Uppal	1.2	1.2	1.2	0.8	-
Mrs. Rohini Ahluwalia	0.7	-	-	-	-
Mrs. Mukta Ahluwalia	0.6	0.6	0.6	0.6	0.6
Ahluwalia Construction Group	0.3	0.3	0.3	0.3	0.3
Gross - Rent Paid	8.2	7.5	8.4	8.0	7.2
<u>Dividend paid on Equity Shares</u>					
Mr. Bikramjit Ahluwalia	2.4	2.4	-	-	3.3
Mr. Shobhit Uppal	1.3	1.3	-	-	1.3
Mr. Vikas Ahluwalia	0.0	0.0	-	-	0.0
Mrs. Sudershan Walia	6.7	6.7	-	-	6.1
Mrs. Rachna Uppal	0.4	0.4	-	-	0.4
Mrs. Rohini Ahluwalia	0.9	0.9	-	-	0.0
Mukta Ahluwalia	0.0	0.0	-	-	0.0
Tidal Securities Private Limited	0.0	0.0	-	-	0.0
Gross - Dividend Paid	11.6	11.7	-	-	11.1
<u>Project Consultancy Income</u>					
ACIL RCPL- Nepal (Joint Venture)	-	-	-	-	187.6
Total	-	-	-	-	187.6
<u>Unsecured Loan taken and interest paid</u>					
Mr. Bikramjit Ahluwalia					
Loan Taken	162.0	-	-	-	-
Loan- Repaid	30.0	74.7	225.0	-	-
Interest Paid	-	-	-	-	-
Mr. Vikas Ahluwalia					
Loan Taken	-	-	-	-	-
Loan- Repaid	-	-	0.6	-	-
Interest Paid	-	-	-	-	-
Total - Loan taken	162.0	-	-	-	-
Total - Loan repaid	30.0	74.7	225.6	-	-
Total - Interest Paid	-	-	-	-	-
<u>Loan given and interest received</u>					
Mr. Vipin Kumar Tiwari					
Loan - Given	0.2	0.3	0.2	0.4	0.1
Loan - Repaid	0.3	0.3	0.2	0.4	0.1
Interest received	0.0	0.0	0.0	0.0	0.0
Mr. Satbeer Singh					
Loan - Given	0.5	0.2	0.9	0.9	0.1
Loan - Repaid	0.4	0.2	1.0	0.8	0.3
Interest received	0.0	0.0	0.0	0.0	0.0
Loan - Given	0.7	0.5	1.2	1.3	0.2
Loan - Repaid	0.7	0.5	1.2	1.2	0.4
Interest received	0.0	0.0	0.0	0.0	0.0

Source: Company Annual Reports, SMIFS Research

Key Management Personnel

Fig 37: Details of promoter and director

Name	Designation	Profile
Mr. Bikramjit Ahluwalia	Founder Promoter and Chairman	Aged 85 years, Mr. Bikramjit Ahluwalia boasts 50+ years of experience in the construction industry. His leadership has resulted in a significant increase in the company's turnover, despite facing stiff competition from various players. Mr. Ahluwalia has played an active role in the management of numerous prestigious projects, including the Moser Baer Plant in Noida, Malibu Town in Gurgaon, CIELO Car Plant in Surajpur, the Goa State Legislative Assembly, and the 22-storied IFCI Tower in New Delhi, among others.
Mr. Shobhit Uppal	Executive Director (Whole Time)	Mr. Shobhit Uppal, aged 54, is a graduate in Electrical Engineering from the National Institute of Technology, Kurukshetra. With a professional career spanning over three decades, he has acquired extensive expertise in various facets of the construction and infrastructure industry, encompassing super structures, integrated townships, hospitals, hotels, commercial complexes, manufacturing facilities, and pipelines. His pivotal role in securing numerous significant contracts and successfully overseeing their execution has propelled the organization to establish itself as a prominent player in the construction sector within the nation.
Mr. Vikas Ahluwalia	Executive Director (Whole Time)	Mr. Vikas Ahluwalia, aged 47, possesses a Bachelor of Engineering degree in Civil Engineering and boasts over two decades of experience in a diverse range of infrastructure-related endeavours. Since 1996, he has been actively engaged in the Construction Business, playing a pivotal role in the prosperous acquisition and execution of numerous large-scale projects. Presently, he assumes the responsibility of Chairman for the Project Monitoring Committee at Ahluwalia Contracts (India) Ltd.
Mr. Sanjiv Sharma	Executive Director (Whole Time)	Mr. Sanjiv Sharma, a 52-year-old individual, holds a Master's degree in Civil Engineering with Honors from IIT Roorkee. He possesses an extensive experience of over 29 years in various aspects of the Construction Industry. From 1993 to 2007, he was associated with the Central Public Works Department (CPWD) and successfully managed significant projects as an Engineer In-charge.
Mr. Arun Kumar Gupta	Independent Director	Mr. Arun Kumar Gupta, a 72-year-old Chartered Accountant by profession, was appointed to the Board of company on 28th Aug'2000. He currently serves as the Chairman of the Audit Committee, as well as a Member of the Nomination & Remuneration Committee (NRC) and Corporate Social Responsibility Committee (CSR) of the Company. For several years, Mr. Gupta has been providing management consultancy services to numerous companies. He possesses extensive experience of over three decades in various fields, including tax planning, corporate restructuring, management information systems, and company law matters.
Dr. Sushil Chandra	Independent Director	Dr. Sushil Chandra, a seasoned professional director, is currently serving as the Director in Andhra Cement Ltd, Radials International Ltd, Tip Top General Agencies Pvt Ltd and Oswal Electricals and Group Industries, Faridabad. With a remarkable academic background, Dr. Chandra holds an M.A and Ph.D.
Mr. Prasad Gupta	Independent Director	Mr. Rajendra Prasad Gupta, aged 70, holds a Bachelor of Science degree in Civil Engineering from Delhi College of Engineer. With over 46 years of experience, he has been actively engaged in various activities pertaining to the Indian Railway and infrastructure. He has also been associated with the Indian Railway Service of Engineers since the 1973 examination.
Dr. Sheela Bhide	Independent Director	Dr. Sheela Bhide is a retired Civil Servant who was a member of the Indian Administrative Service, Andhra Pradesh Cadre of the 1973 Batch. Throughout her career spanning 36 years, she has served both the Government of Andhra Pradesh and the Government of India in various capacities. Within the Government of India, she has held esteemed positions such as Chairperson of the India Trade Promotion Organization, Special Secretary and Financial Adviser in the Ministry of External Affairs, Additional Secretary and Financial Adviser in the Ministry of Defense, and Joint Secretary in the Ministry of Corporate Affairs.

Source: Company, SMIFS Research

CSR Activities

Ahluwalia has been actively involved in CSR activities for the betterment of the society. The company has spent ~Rs25.9mn in FY22 and ~Rs1.6mn in FY23. Please note that, it had a surplus of Rs38.4mn resulting from the CSR initiatives undertaken in previous years. Adjusted to the same, the spend as % of prescribed limit is ~100% for both FY22 and FY23.

Fig 38: CSR spend

<i>(Rs in mn)</i>				
Year	Avg Net Profit (last 3 Yrs)	Prescribed Expenditure	Total Spends	Spend as % of prescribed limit
FY23	1,424	28.5	1.6*	5.6*
FY22	1,296	25.9	25.9	100.0
FY21	1,524	30.5	30.5	100.0

Source: Company Annual Reports, SMIFS Research; *the company had surplus resulting from CSR initiatives undertaken in previous years. Thus, the management has decided to utilize the surplus during FY23

Auditors

During the AGM convened on 30th Sept 2020, Ahluwalia officially sanctioned the re-appointment of M/s. Amod Agrawal & Associates, Chartered Accountants, as the Statutory Auditors for an additional term spanning five years until the year 2025. The auditors have diligently provided an accurate and unbiased representation of the financial results for FY23. In the past, M/s Amod Agrawal & Associates has also served as the Statutory Auditor for Filatex India from FY13-17.

Fig 39: Auditor fee

Auditor Name	Type	Auditor Fees - (Rs mn)	As a % of PBT
M/s. Amod Agarwal & Associates	Statutory Auditors	3.9	0.15

Source: Company Annual Reports, SMIFS Research

Company Background

- Ahluwalia Contracts (India) Ltd, established in 1979, is led by Mr. Bikramjit Ahluwalia. Headquartered in New Delhi, the company has expanded its presence in 15 states with most exposure in East and North India. It is also executing a project in Nepal (overseas).
- The company possesses over four decades of experience in providing comprehensive engineering and design solutions to both public and private sectors. Its primary focus lies in the field of construction services, with a specialization in the execution of turnkey projects encompassing civil construction, electrical works, plumbing, fire-fighting, and other related areas.
- The project portfolio comprises a range of developments, encompassing Residential and Commercial complexes, Information Technology (IT) Parks, Institutional Buildings, Hospitals and Corporate offices, Airports, Medical Colleges, Metro stations and depots, Industrial and townships, BOT projects, and urban infrastructure.

Fig 40: The remarkable journey of Ahluwalia contracts

Year	Details
1979	Incorporated as Private limited company
1990	Undergone a transformation from a private limited company to a public limited company.
1996	Successfully launched its public offering and subsequently achieved listings on DSE, CSE, and JSE
2002	The company's revenue exceeded Rs1bn
2005	Revenue witnessed a significant improvement, reaching a total of Rs3bn.
2006	Net profits exceeded Rs150mn, and a bonus issue of 3:1 has been declared.
2007	The company got listed on BSE, and its turnover has exceeded Rs5bn
2008	Net profit has experienced a notable enhancement, reaching a total of Rs500mn
2009	Listed on the NSE, and its revenue has surpassed Rs11bn
2010	Secured Housing projects for Commonwealth Games
2015	Preferential allotment to Promoters
2018	Net profits crossed Rs1.15bn
2022	The turnover has exceeded Rs25bn, while the net profit has surpassed Rs1.5bn
2023	The orderbook has surpassed the value of Rs100bn

Fig 41: Key clients



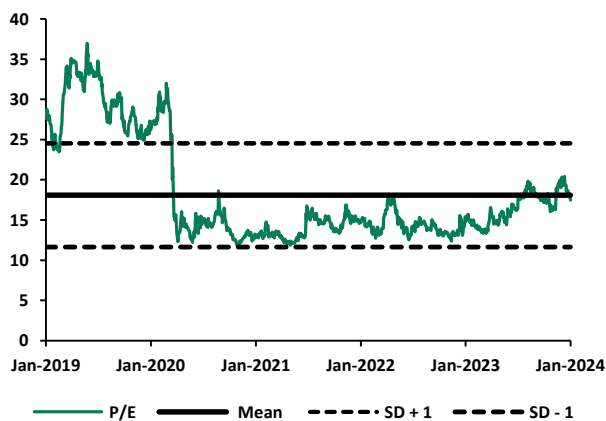
Source: SMIFS Research

Valuation and Recommendations

Strong order backlog, anticipated order addition, robust construction capabilities with in-housing design and execution teams is likely to drive the company's topline growth. Margin expansion likely with stable raw material prices, in-built price escalation clause in most of the contracts, and projects bagged in better margins recently. Maintenance of cash surplus status, healthy working capital days and strong return ratios further adds to strong fundamentals.

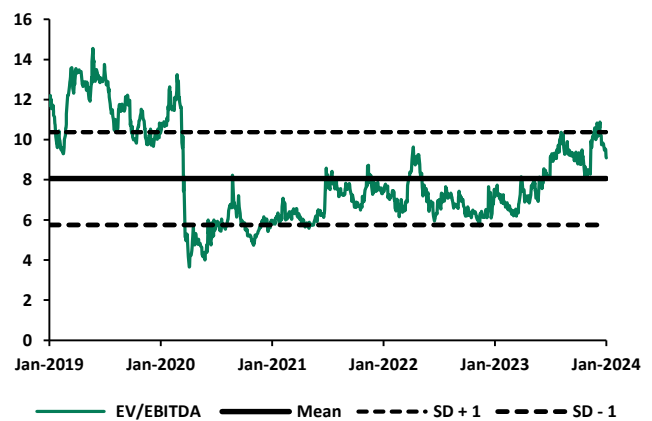
At the ruling price of Rs787, the stock (excluding Kota asset) is trading at 16.9x FY25E P/E, 13.1x FY26E P/E. We believe, the company is likely to receive leading valuations due to its superior growth and highest return metrics among peers. With this, we recommend a 'BUY' rating and set a target price of Rs958. This is derived using a 16x PE multiple for FY26E construction earnings (Rs943 a share), while the Kota asset is assumed at its book value of Rs15 a share.

Fig 42: 1-year forward P/E



Source: AceEquity, SMIFS Research

Fig 43: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS Research

Peer Comparison

Company	Revenue CAGR FY23-26E (%)	Operating Margin FY26E (%)	PAT CAGR FY23-26E (%)	ROE (%)	ROCE (%)	Net D/E (x)	P/E (x)	EV/EBITDA (x)
						FY26E		
Capacit'e	14.9	16.8	18.3	11.6	11.3	0.2	13.1	4.8
NCC Ltd	13.2	10.1	16.2	11.2	15.4	0.1	12.3	5.8
PSP Projects	17.7	12.4	20.6	18.9	17.2	-0.1	11.3	6.4
Ahluwalia	24.1	11.5	26.7	20.2	21.9	-0.5	13.3	6.8

Source: Company, Bloomberg, SMIFS Research Estimates

Key Risk and Concerns

- **The potential risks associated with the construction industry:** The economic slowdown and regulatory changes within the construction industry may result into lower-than-anticipated inflows and can impact on Ahluwalia's financial standing
- **Volatility in raw material prices:** Ahluwalia is exposed to the risk of price fluctuations in key raw materials, including cement, bricks, sand, and steel. These fluctuations are driven by changes in demand-supply dynamics and have the potential to increase input costs, thereby exerting pressure on the company's margins and profitability.
- **Risk of Manpower Shortage:** The execution of construction projects in a timely manner necessitates a substantial workforce on the construction site. Any insufficiency in labor may have a detrimental effect on the company's performance.

Quarterly financials, operating metrics, and key performance indicators

Fig 44: Quarterly financials

Y/E March (Rs mn)	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Net sales	6,835	7,309	6,092	6,228	7,433	8,631	7,636	9,015
Raw Material and Construction cost	5,591	6,130	4,906	5,049	6,081	6,830	6,027	7,293
Employee Cost	492	451	457	469	536	538	660	688
Other Expenditure	58	92	123	92	101	160	123	137
EBITDA	694	636	606	619	715	1,103	827	898
Depreciation	85	83	86	89	111	102	118	126
Interest	106	100	78	71	70	112	108	115
Other Income	50	113	72	66	68	89	68	85
PBT	553	567	515	525	602	977	669	742
Tax	130	143	137	133	152	255	171	189
<i>Tax rate (%)</i>	<i>23.5</i>	<i>25.3</i>	<i>26.6</i>	<i>25.4</i>	<i>25.2</i>	<i>26.1</i>	<i>25.6</i>	<i>25.5</i>
Reported PAT	423	424	378	392	450	722	497	553
Extraordinary Item								
Adjusted PAT	423	424	378	392	450	722	497	553
YoY Growth (%)								
Revenue	27.5	(4.0)	5.0	(10.8)	8.7	18.1	25.3	44.7
EBITDA	119.1	(8.9)	0.3	(2.0)	2.9	73.3	36.4	45.1
Adj. PAT	187.4	14.3	8.6	9.4	6.3	70.5	31.7	41.2
QoQ Growth (%)								
Revenue	(2.1)	6.9	(16.6)	2.2	19.3	16.1	(11.5)	18.1
EBITDA	10.0	(8.4)	(4.7)	2.1	15.5	54.3	(25.0)	8.6
Adj. PAT	18.3	0.1	(10.8)	3.7	14.9	60.5	(31.1)	11.2
Margin(%)								
Gross Profit	18.2	16.1	19.5	18.9	18.2	20.9	21.1	19.1
EBITDA	10.2	8.7	9.9	9.9	9.6	12.8	10.8	10.0
Adj. PAT	6.2	5.8	6.2	6.3	6.1	8.4	6.5	6.1
Employee cost as % of sales	7.2	6.2	7.5	7.5	7.2	6.2	8.6	7.6
Other expenses as % of sales	0.8	1.3	2.0	1.5	1.4	1.8	1.6	1.5
Operational Matrix								
Order book (Rs mn)	65,944	58,016	61,025	75,879	81,132	81,628	1,17,796	1,20,797
Inflows (Rs mn)	-	-	28,641	-	8,348	10,394	43,774	8,821
Order book/TTM bill (x)	2.4	2.2	2.2	2.9	3.0	2.9	3.9	3.7

Source: Company, SMIFS Research

Financial Statements (Standalone)

Income Statement					
YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	26,925	28,384	34,800	44,216	54,311
Raw Materials	22,003	22,866	27,678	35,387	43,629
% of sales	81.7	80.6	79.5	80.0	80.3
Personnel	1,879	2,000	2,786	3,259	3,735
% of sales	7.0	7.0	8.0	7.4	6.9
Other Expenses	477	476	535	613	696
% of sales	1.8	1.7	1.5	1.4	1.3
EBITDA	2,566	3,042	3,802	4,957	6,251
Depreciation	336	388	517	624	736
Other Income	291	295	318	345	393
EBIT	2,522	2,949	3,603	4,678	5,908
Finance cost	437	331	476	579	628
Core PBT	1,793	2,323	2,809	3,754	4,888
Exceptional Items	-	-	-	-	-
PBT	2,084	2,619	3,128	4,099	5,281
Tax-Total	532	677	788	1,033	1,331
Effective Tax Rate (%)	25.5	25.8	25.2	25.2	25.2
Reported PAT	1,553	1,942	2,339	3,066	3,950
Adjusted PAT	1,553	1,942	2,339	3,066	3,950

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY22	FY23	FY24E	FY25E	FY26E
Growth Ratio (%)					
Revenue	35.8	5.4	22.6	27.1	22.8
EBITDA	66.4	18.5	25.0	30.4	26.1
Adjusted PAT	101.0	25.1	20.5	31.1	28.8
Margin Ratios (%)					
Gross Profit	18.3	19.4	20.5	20.0	19.7
EBITDA	9.5	10.7	10.9	11.2	11.5
EBIT	9.4	10.4	10.4	10.6	10.9
Core PBT	6.7	8.2	8.1	8.5	9.0
Adjusted PAT	5.8	6.8	6.7	6.9	7.3
Return Ratios (%)					
ROE	16.2	17.1	17.4	19.0	20.2
ROCE	18.4	18.4	19.2	21.0	21.9
Turnover Ratios (days)					
Gross block turnover ratio	10.8	9.2	8.4	8.5	8.6
Adj OCF/ Adj PAT (%)	24.0	146.9	98.7	26.9	61.7
Inventory	32.8	31.4	34.0	36.0	36.0
Debtors	66.0	82.1	82.0	86.0	84.0
Creditors	84.0	86.4	87.0	85.0	83.0
Cash conversion cycle	14.9	27.1	29.0	37.0	37.0
Solvency Ratio (x)					
Debt-equity	0.1	0.0	0.0	0.0	0.0
Net debt/equity	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Gross debt/EBITDA	0.2	0.2	0.1	0.1	0.1
Current Ratio	1.8	1.8	1.7	1.8	1.8
Interest coverage ratio	5.8	8.9	7.6	8.1	9.4
Dividend					
DPS	0.3	0.4	0.5	0.6	0.8
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1
Dividend Payout (%)	1.3	1.4	1.4	1.3	1.3
Per share Ratios (Rs)					
Basic EPS (reported)	23.2	29.0	34.9	45.8	59.0
Adj EPS	23.2	29.0	34.9	45.8	59.0
CEPS	28.2	34.8	42.6	55.1	69.9
BV	154.7	183.6	218.1	263.4	321.7
Valuation (x)*					
Adj P/E	20.3	19.9	22.5	17.2	13.3
P/BV	2.4	2.5	3.6	3.0	2.4
EV/EBITDA	8.1	8.1	11.8	9.0	6.8
EV/Sales	0.8	0.9	1.3	1.0	0.8
Adj Mcap / Core PBT	15.0	13.8	15.8	11.7	8.6
Adj Mcap / Adj OCF	72.1	11.2	19.2	53.4	17.3

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Sources of funds					
Capital	134	134	134	134	134
Reserves & Surplus	10,231	12,164	14,477	17,509	21,419
Shareholders' Funds	10,365	12,298	14,611	17,643	21,553
Total Loan Funds	539	578	563	545	529
Other liabilities	529	700	1,839	2,017	2,233
Total Liabilities	11,432	13,576	17,012	20,205	24,315
Application of funds					
Gross Block	2,512	3,497	4,647	5,647	6,847
Net Block	1,089	1,771	2,458	2,888	3,407
Right use of Assets	63	58	52	47	42
Capital WIP	1	8	8	8	8
Intangible Assets	11	12	12	13	14
Other Investments	1,125	1,101	1,079	1,062	1,047
Other non-current assets	1,641	692	1,019	1,172	1,345
Inventories	2,420	2,440	3,242	4,361	5,357
Sundry Debtors	4,871	6,388	7,818	10,418	12,499
Cash and Bank Balances	4,334	5,880	7,318	7,435	9,003
Quasi cash Investments	319	733	946	1,187	1,443
Other current Assets	4,334	5,594	7,663	9,142	10,769
Total Current Assets	16,277	21,035	26,988	32,543	39,070
Sundry Creditors	6,194	6,717	8,295	10,297	12,350
Other Current Liabilities	2,581	4,384	6,310	7,230	8,268
Total Current Liabilities	8,775	11,101	14,604	17,527	20,618
Net Current Assets	7,502	9,935	12,383	15,016	18,452
Total Assets	11,432	13,576	17,012	20,205	24,315

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Operating profit before WC changes	2,655	2,956	3,802	4,957	6,251
Net changes in working capital	(1,405)	546	(199)	(2,491)	(1,825)
Tax Paid	591	488	788	1,033	1,331
Cash flow from operating activities	658	3,013	2,815	1,434	3,095
Adj. OCF	373	2,853	2,309	825	2,438
Capital expenditure	(281)	(1,061)	(1,150)	(1,000)	(1,200)
Adj FCF	92	1,791	1,159	(175)	1,238
Cash flow from investing activities	(1,007)	(1,658)	(859)	(686)	(843)
Debt	(185)	(6)	(15)	(18)	(17)
Dividend	-	(20)	(27)	(33)	(40)
Interest and Lease	(257)	(134)	(476)	(579)	(628)
Cash flow from financing activities	(442)	(161)	(517)	(631)	(685)
Net change in cash	(791)	1,195	1,438	117	1,567

Source: Company, SMIFS Research Estimates

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Analyst holding in stock: **NO**

Key to SMIFS Investment Rankings

Buy: Return >15%, Accumulate: Return between 5% to 15%, Reduce: Return between -5% to +5%, Sell: Return < -5%

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